

CalPERS Retirement Income Sources Webinar

Title: Retirement Income Sources
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Laurie Daniels: Welcome to the Retirement Income Sources webinar.

Jim Cale: In this webinar, we'll cover information to help you gain a better understanding of the different sources of retirement income you may use to fund retirement when the time comes.

Our agenda for today's session will cover several topics, including potential retirement income sources, along with a brief overview of other financial planning considerations.

At the end, we'll cover some of the tools and resources available to you, as well as how to contact CalPERS.

Laurie: Let's start by covering some income sources that you may want to take into consideration as you plan for the future. Many financial experts believe you need approximately 85% of your pre-retirement income in order to maintain your current standard of living into retirement. This percentage may be higher or lower, depending on how you want to spend your retirement time. Will it include lots of travel or staying close to home?

Your retirement income may include one of the following sources: Your pension, Social Security, and your own personal savings. Each of us must decide the amount of income we need to support the lifestyle we want for retirement.

Will your CalPERS allowance represent 25% or 60% of your income? How much will your Social Security benefit cover for those who qualify? And how many of you will need to supplement your income with personal savings, such as tax-deferred plans or other savings and investments that you may have?

Keep in mind that if one of your retirement income sources is lacking, then the others will need to take up the slack. The earlier you start planning, the better.

Jim: Let's start with the first income source, your CalPERS pension. Your CalPERS pension is a 401A defined benefit plan. This means that the amount of the benefit is determined by a formula. It is not determined by how much you contribute into the plan.

Once you are eligible, your benefit is guaranteed and payable for life. CalPERS manages the funds paid into the system by you and your employer. The money to fund your pension comes from three sources; CalPERS investment returns, which currently pay 65 cents for every pension dollar paid. It's historically been as high as 75 cents. Twenty-two cents of every dollar comes from employer

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contributions and finally, 13 cents of every dollar comes from our member contributions.

And here's the formula we use to calculate your pension.

There are three factors that make up this formula.

The first is service credit, which is your total years of service with all CalPERS employers.

The second is the benefit factor, which is the percentage of pay you are entitled to for each year of service credit that you've earned. It's based on the retirement formula your employer contracts for and your age of retirement.

And the third is final compensation, which is an average of your highest monthly pay rate. When you retire, CalPERS will multiply your years of service credit by your benefit factor, then multiply that result by your final compensation, which will give your unmodified allowance.

The unmodified allowance is your basic pension in the highest amount you can receive when you retire. And again, the important thing to remember here is that your pension benefit is determined by this formula. It's not determined by how much you contribute into the plan.

Laurie: The next income source you may have is Social Security. The slides provide a brief introduction to Social Security based on information from their website. If you have any questions about your personal situation, you'll need to contact Social Security directly.

Social Security is a federally mandated social insurance program. The amount of your benefit is based on the year you were born and the average wages earned over your lifetime. You may begin to collect on these benefits as early as age 62. And there may also be benefits available to eligible family members.

So how do you qualify for Social Security? When you pay Social Security taxes, called FICA on some pay stubs, you earn credits. You need a minimum of 40 credits, which is 10 years of work to qualify for Social Security.

Once you have the minimum credits, you can retire as early as age 62 with a reduced benefit. To receive your full benefit, you must retire between the ages of 65 and 67, depending on your year of birth.

Here's a chart that shows when you would reach the full retirement age to receive 100% of your entitlement from Social Security. It also shows the reduced percentage you would receive at age 62.

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If your birth date is prior to 1938, your full retirement age would be age 65. As you can see from the chart, the age for full retirement is gradually increasing so that everyone born in 1960 or later will have to be the age of 67 to receive full Social Security benefits.

As an example, if you look at the chart, you can see a person born in 1955 would have to be 66 years and two months of age to receive their full benefit. And at age 62, they would receive 74.20% of their full benefit.

If you pay into Social Security, beginning at 25 you'll have access to annual statements. For additional information, you can contact the Social Security Administration in the following ways:

First is online at www.ssa.gov. Along with general information, you can create a "My Social Security" account to gain access to your own personal information, including the online statements that show your Social Security earnings, benefit information and estimates of future benefits you can use for planning. You should review your statement information carefully to make sure that the income reported is correct.

You can call them toll-free at 800-772-1213, and they have TTY available for hearing and speech impaired at 800-325-0778.

Or you can visit your local Social Security office.

Jim: The last of our retirement income sources is personal savings. Your CalPERS pension and Social Security may not be enough for the lifestyle you wish for in retirement. And if that's the case, you may need to supplement them with your personal savings.

Personal savings can come from a variety of sources, such as personal savings accounts and individual retirement accounts, such as IRAs and Roth IRAs.

You may also have other sources, such as brokerage accounts, mutual funds, stocks and bonds or real estate properties.

One of the most common ways to save for retirement is through an employer sponsored defined contribution plan, such as a 401K, 457 or a 403B plan.

So let's talk a little bit more about defined contribution plans. For many of you, these types of plans can be a very important component of your personal retirement savings.

The key elements of a defined contribution plan are:

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The retirement benefit is determined by your contributions into the plan and the investment earnings or losses they produce. There is no guaranteed benefit, like you have under the CalPERS defined benefit plan.

You are responsible for deciding how much to contribute into the plan and how the funds are invested.

And here's some advantages of a defined contribution plan:

The amount you contribute is not set by law, like it is with your CalPERS plan. You can contribute the lowest amount allowed or up to the limitations of the plan.

Defined contribution plans usually provide a variety of investment choices that allow you to diversify or spread your risk over several different asset classes.

And you may be able to withdraw money from the plan for financial emergencies, which is not allowed with your CalPERS contributions.

If you have an employer sponsored plan, the money is contributed pre-tax, which lowers your taxable income. So you save on your income taxes now. The money you invest and earned over the years grows tax-deferred until the funds are withdrawn in retirement.

Once you begin receiving the money, you'll be paying taxes on it, but the amount of the taxes will be based on your tax bracket at that time.

Let's look at an example of the tax savings possible by saving with a defined contribution plan:

In this example, we have two members who are both saving \$100.00 per month. Member A has a taxable monthly salary of \$2,500.00. After taxes are paid, the amount is reduced to \$2,100.00. Member A is putting the money into their savings account after they get their paycheck, which means they were taxed on the full \$100.00. At the end, their take home pay is \$2,000.00.

But Member B has the same monthly income prior to taxes; \$100.00 was invested into his tax-deferred plan, which reduced his taxable income to \$2,400.00. Because less taxes were taken out, the take home pay is \$35 more than Member A's is. In effect, it only cost Member B \$65.00 to invest \$100.00 in a tax-deferred retirement savings plan.

This is an example of the benefits of compounding interest. It's also an example of why starting early can be beneficial.

Member A begins investing at age 30 with a retirement age of 65. They invest \$5,000.00 a year for 15 years until age 45, at which time they stop investing. The

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funds already stayed invested and continue to earn dividends and interest until they begin withdrawals at age 65.

Member B doesn't begin investing until age 45. To try and make up for lost time, he invests \$7,500.00 a year for 20 years until he retires, also at age 65. Member B invests twice as much as member A; \$150,000.00 versus \$75,000.00, but still ends up with less money in the end because Member A's investments were compounding for a much longer period of time.

The result is that with the total amount invested plus interest earned, Member A retires with over \$427,000.00 versus Member B's over \$318,000.00. So because of early planning, Member A retires with over \$109,000.00 more than Member B.

I want to emphasize that although starting early is beneficial, it's never too late to get started saving funds for retirement and saving on your current taxes.

If you are a public agency or school employee, you may be eligible to participate in the CalPERS Supplemental Income 457 Plan, as long as your employer contracts to offer this program.

Your employer can offer this program to you at no cost to them and contributions are made on a pre-tax basis. You can find more information at CalPERS On-Line.

Although your employer may not contract with us to offer the CalPERS 457 Plan, most employers do have plans that you can participate in. You should check with your employer to see what plans they offer.

State employees have the ability to sign up for the Savings Plus Program, which is administered through the California Department of Human Resources or CalHR.

The Savings Plus Program offers 401K and 457 plans. For more information, you can go to www.savingsplusnow.com.

CalPERS offers another savings option for State employees; the Supplemental Contribution Plan. For this plan, contributions are made on an after-tax basis. You can find more information for this program CalPERS On-Line.

If you're interested in any types of investing, you should consider consulting a financial planner or other qualified professional. And please remember that CalPERS does not provide financial planning services.

Laurie: Along with the income sources discussed, there are some other planning considerations, starting with long-term care.

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CalPERS long-term care is a voluntary self-funded, not-for-profit program that helps protect assets and lifestyles from the catastrophic cost of needing long-term care services. It's entirely funded by member contributions.

This program is available to all California public employees and retirees regardless of whether the employer contracts for CalPERS retirement benefits.

Also eligible are the employee's spouse, adult children, parents and parents-in-law, and adult siblings between the ages of 18 and 79. You can learn more about the program coverage options and download or request an application kit by visiting the Long Term Care website at www.CalPERSLongtermcare.com.

You can also contact them by phone at 800-908-9119.

Jim: Another vital element when planning for your retirement is estate planning. Proper estate planning can ensure that the assets you've accumulated over your life are protected and will stay with your loved ones after your death.

Estate planning tools may include Wills or Trusts. Also Advanced Directives, such as Living Wills, Durable Power of Attorneys for non-CalPERS related assets and a Health Care Power of Attorney or proxy can be involved.

A letter of last instructions can provide information regarding funeral arrangements, individuals to notify and other information.

CalPERS cannot offer estate planning advice. We recommend that all of our members work with a licensed estate planning professional when deciding to start the estate planning process.

Laurie: One of the tools that you can use is CalPERS Special Power of Attorney. No matter your age, having a Power of Attorney on file can be very important if you become incapable of handling your own affairs.

You may already have a Durable Power of Attorney set up through another resource. However, it may not address CalPERS retirement benefits.

The CalPERS Special Power of Attorney is a simple four-page document that allows you to designate a person or persons to act as your Attorney In Fact on your behalf as it relates to your CalPERS benefits.

They can contact us and request information regarding your benefits, as well as update your address. The Attorney In Fact can submit a retirement application on your behalf and may choose a beneficiary option based on the specific type of authority you give them.

It's important to note that this form cannot be used to have authority over any

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medical decisions and it also can't be used for real and personal property decisions. Again, this is specific to CalPERS alone.

You can find more information on CalPERS Special Power of Attorney at CalPERS On-Line in our Forms and Publications Center.

Jim: Let's look at some tools and resources that all of our members have available to them. One of the greatest resources we offer is CalPERS On-Line at www.CalPERS.ca.gov. Most of the services available do not require a username and password.

You can use the Service Credit Cost Estimator to get an estimate of the cost for several types of service credit purchases.

The Retirement Estimate Calculator allows you to calculate an estimate of your retirement allowance and if you use the version of the calculator in my|CalPERS, which we'll cover in a few moments, it can pre-populate some of the information for you.

Additional tools for those with CalPERS health benefits are the Health Plan Chooser and the Health Plan Search By Zip Code tools. And you can find additional information through CalPERS Forms and Publications Center.

Other resources include the PERSpective Newsletter, which is available to all CalPERS members three times a year, which can be viewed online and provides valuable CalPERS information and updates. You can sign up for CalPERS email subscriptions and these emails will be sent directly to you.

You can sign up for one or all of the subscriptions offered. Some of the most popular include:

The News Release, which sends you a notification when CalPERS issues a new press release.

The CalPERS News is an informational newsletter that is sent out twice a month.

The Employer Bulletin is where you'll receive the latest employer related news and information.

And last, but not least, keep an eye out for our New Member Education Bulletin, which will provide information related to upcoming webinars, instructor-led classes and other educational offerings. You can find additional subscriptions at CalPERS On-Line.

Another valuable resource is my|CalPERS, where you can find your personal information in a secure location behind your username and password. Once you

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log in on the home page, you'll find the CalPERS Account Summary, which provides you with information on your accounts total balance and total service credit as of the most recent payroll reported by your employer.

The Retirement tab is where you'll find a summary that includes a breakdown of your contributions plus interest, your membership status and your retirement formula.

At some point, you may need to request a letter to verify your account balance. You can now print this document automatically. You can even address it to an outside organization, such as a landlord or mortgage company.

If you select the Statements link, you'll have access to your annual member statements or once you're retired, your check statements.

You'll also find the Retirement Estimate Calculator, which pre-populates with your most current information and you can save them for review at a later date.

When you're ready, you can now apply for retirement directly online as well.

For those of you who have CalPERS Health Benefits, the Health Plan Summary page provides information about your medical plan, the coverage type, when you were enrolled, and your premiums. At the bottom of this page, you'll find your subscription information, as well as a list of any dependents you have enrolled on your health plan.

If you select the Education Resources tab, you'll find our Resource Center. Here you can take classes online or enroll in an instructor-led class held by our Regional Offices located throughout the state. You may also schedule an appointment, access the Publication Center and download the latest PERSpective Newsletter.

On the right, you can access CalPERS videos about retirement planning and much more.

The Profile tab is where you'll be able to review and update your address, email and phone numbers, change your password and let us know your mailing preferences.

If you're an active employee, you'll still need to update your information with your employer as well.

And this brings us to our last tab, the Message Center. In the Message Center, you can submit an inquiry directly to CalPERS. Because your request comes from a secure source, behind your username and password, in most cases, CalPERS will be able to provide a more personalized response.

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When CalPERS answers your inquiry, you'll be notified by email that you have a message waiting in my|CalPERS. You simply log in to review the response.

Along with CalPERS On-Line and my|CalPERS, a great way of keeping up with the latest information is the use of social networking. You can now follow us on Twitter and like us at Facebook.

You can also find great informational videos by going to the Video Center on our website. All of our video content is published to the CalPERS YouTube Channel. On YouTube, you can subscribe to our videos, share them and even embed them in your own sites.

Laurie: There may be times that you'll need to contact CalPERS. Along with our Message Center, if you do have a general question, you can send it through CalPERS On-Line. You find the service through the Contact Us link in the upper right corner of our website. It's important to remember that with this method, we can only provide general information and we cannot provide detailed account information.

You can contact CalPERS by mail. When corresponding with CalPERS by mail, you should include your CalPERS ID or Social Security number, and keep in mind that the average response time can be 30 to 60 days. Some inquiries which require additional research may take longer.

You can call CalPERS at 888-CalPERS or 888-225-7377. For 24-hour service, try the CalPERS automated phone system. Most questions can be answered in a few simple steps. Our CalPERS representatives are available from 8:00 to 5:00 Monday through Friday and in most cases, they can assist you in a single call.

The busiest times to call CalPERS are the first of the month, Mondays and the day after a holiday. We now offer a call-back feature so that you can avoid waiting on hold.

We have eight Regional Offices located throughout the state, where staff will assist you with a variety of services and educational events. We do have walk-in appointments available, but you may have to wait a long period.

To help minimize your wait time, you can pre-schedule an appointment through my|CalPERS. Appointments can fill up over a month in advance, so please plan ahead.

Before visiting our offices, we have some suggestions to help you get the most out of your time with us. First, take CalPERS classes and check out our online retirement planning tools.

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Read and complete any necessary forms or applications to the best of your ability and bring any supporting documents that you may need.

Most importantly, write down a list of any specific questions that you may have.

To get more information on your CalPERS benefits, no matter where you are in your career, you can take advantage of our member education classes, either online 24 hours a day or in a classroom setting through our Regional Offices. Our classes take you from being a new member all the way into retirement.

Sign in to my|CalPERS and select the Education Resources tab to enroll.

Before you sign off today, we have a short survey we'd like you to complete. Please answer all of the questions, as it's important to us to get your feedback to help us improve these presentations.

Our presentation today was intended to give you a basic knowledge of the income sources that you may have available to you in retirement. We hope this information has been beneficial in helping you prepare for the future and retirement.

We'd like to thank you for taking time out of your day to attend this webinar and have a great rest of the day.